

VZCZCXR08044
RR RUEHPA
DE RUEHUJA #0263/01 0420646
ZNY CCCCC ZZH
R 110646Z FEB 09
FM AMEMBASSY ABUJA
TO RUEHC/SECSTATE WASHDC 5263
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHSA/AMEMBASSY PRETORIA 1671
RUEHGB/AMEMBASSY BAGHDAD 0047
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 000263

SIPDIS

DEPARTMENT PASS TO USTR-AGAMA, USAID
USAID/AFR FOR ATWOOD
TREASURY FOR PETERS, IERONIMO, HALL
DOC FOR 3317/ITA/OA/KBURRESS
DOC FOR 3130/USFC/OIO/ANESA/DHARRIS
BAGHDAD FOR DUNDAS MCCULLOUGH

E.O. 12958: DECL: 02/10/2019

TAGS: EFIN ECON PGOV EAID ETRD EAGR NI

SUBJECT: NIGERIA: MINISTER OF FINANCE PUSHING FOR REFORMS

REF: A. ABUJA 122

¶B. 08 ABUJA 2365

¶C. 08 ABUJA 1191

Classified By: Ambassador Robin Renee Sanders for reasons 1.4 (b and d).

¶11. (C) Summary. Minister of Finance Mansur Muhtar told the Ambassador on February 5 that his priority areas are minimizing the budget deficit, maintaining fiscal discipline with the excess crude account, implementing "holistic" economic policy reforms and cushioning the Nigerian economy from the global economic crisis. Minister Muhtar underscored that the effects of the global financial crisis are "real, unavoidable and must be dealt with" because the country is dealing with "considerable shocks". However, he contended that this is the "right time" for institutional reforms and diversification of the economy. His goals include watching the red flags from the banking sector, addressing the 3% deficit in the budget and limiting new capital projects but executing on existing ones (which he said were 85% underway), prioritizing GON spending and examining options for a GON version of a stimulus-like economic package. The Ambassador informed the Minister about the U.S. Global Food Security Response program and the assistance that the U.S. can offer to address customs reforms and trade policy. She also mentioned Trade Investment Framework Agreement (TIFA), Bilateral Investment Treaty, and tariff issues. Muhtar was very detailed in his explanation and vision for not only the ailments on the horizon for the Nigeria economy, but options he is reviewing. The Ambassador briefed him on the upcoming Treasury Infrastructure Consortium about which he seemed very interested. End Summary.

Global Economic Crisis

¶12. (SBU) On February 5, 2009 Ambassador, EconOff (note taker) and USAID EconGrowthDin (Director of Economic Growth) met with Minister of Finance (MinFin) Mansur Muhtar to hear his views on the economic global crisis and what he plans to accomplish during his tenure. Regarding the global economic crisis, Minister Muhtar said that the Nigerian style "business as usual" is no longer a valid solution in dealing with the situation. The GON is "sensitizing" the public that the crisis is real and solutions must be found.

¶13. (C) Minister Muhtar reported that the President and the Economic Management Team (EMT), which Muhtar chairs, are committed to monitoring, tracking and responding to changes in the economy. He stressed there is a sense of urgency and that the GON must take this "useful opportunity to make reforms" and implement a stronger institutional framework. He reported that the had held an Economic Council Meeting (ECM) on February 3, which decided to reorganize into

four sub working groups (WG) - macroeconomics, public finance, infrastructure and capital markets - to focus on a more "holistic" approach as they are always consequences to financial policy decisions. The WGs' responsibilities are to assess and recommend appropriate policy responses to stimulate the economy (reftel A).

Budget Issues

¶ 14. (C) Minister Muhtar said that there are major challenges - the likely budget deficit and concerns in the financial sector that must be dealt with. He said the budget deficit is a problem and the GON is operating on a continuing resolution-like framework with ministries receiving a percentage of their FY2008 first quarter budgets in order to function. One immediate problem is the shortfall in revenue, which may require the GON to curtail expenses, raise funds from the bond market and potentially borrow money. He expects the National Assembly to soon agree on the FY2009 budget. He said raising revenues when the price of crude oil is less than 2009 budget benchmark price of \$45 per barrel is difficult.

¶ 15. (SBU) The Minister reported positive news in that the GON had approximately 85% of its capital projects underway. He said financing existing projects are priorities (reftel B). He also ordered and audit of all finance and regulating agencies, including the Custom Service (NCS) and Federal Inland Revenue Service (FIRS), and a review of the fuel subsidy which would drop the price from 70 (\$0.48) to 65 (\$0.44) naira. He noted that quick execution of the budget is a key to "jump starting" the economy.

Excess Crude Account

ABUJA 00000263 002 OF 002

¶ 16. (C) Minister Muhtar underscored that protecting the Excess Crude Account (ECA) from political maneuvering is a big challenge for the GON. The GON is being pressured from the state to release funds from the ECA in this time of budget deficits. According to Muhtar, states contend this is a time of economic crisis and release of ECA funds is warranted. In addition, states claim that the federal government if violating the constitution by withdrawing ECA funds for other proposes other than direct distribution of the state and local governments. (Note: The ECA contradicts the constitution. Section 162 (1) of the 1999 Constitution states that all revenues collected by the federal government must be paid into the Federation Account, except the proceeds from the personal income tax of the personnel of the armed forces of the Federation, Nigeria Police Force, the Ministry of Foreign Affairs, and the residents of the Federal Capital Territory, Abuja. Several states have challenged the ECA's constitutionality in the court system. The courts have yet to rule on it. See reftel C. End Note.) Minister Muhtar underscored that he wants to "protect the ECA account as much as possible" and emphasized that he did not want to support any further distribution of ECA funds to the states implying that this is a political fight he would not always win, but for now so far so good.

¶ 17. (C) In response to the Ambassador's questions on the naira and capital markets, the Minister replied that stability of the naira "must be secured." He stressed that the initial government actions to bolster the capital market did not work and some banks want a bailout from the government. The Central Bank of Nigeria (CBN) has concerns with the accuracy of reporting from some banks. He reported that the CBN has seen too many red flags in many banks reporting. Minister Muhtar shared that "the CBN wants a cautious approach that does not raise panic;" however, he would take a more aggressive stance. He believes that the worst case scenario must be considered and the magnitude of the problem cannot be overlooked or ignored.

¶ 18. (SBU) Regarding trade and investment, the Ambassador stressed the importance of Bilateral Investment Treaty (BIT) and Trade Investment Framework Agreement (TIFA) for encouraging foreign investments. Minister Muhtar described the growing pressure on the GON to fully adopt the ECOWAS Common External Tariff (CET); however, the GON wants to make "informed decisions" in terms of trade policies. He was unaware of past and future USG technical assistance and capacity

building for the Custom Service (CS), which his Ministry oversees, and noted the CS is facing challenges and reforms, among others, in the areas of leadership, revenue collection and port congestion. He was pleased to learn that USAID assistance under the Global Food Security Response program is planned also to help modernize customs procedures for agricultural trade and he appointed a point of contact for follow up discussions. The Ambassador briefed him on the upcoming Treasury Infrastructure Consortium about which he seemed very interested.

¶9. (C) Comment: Minister Muhtar is well-respected due to his success as head of the Debt Management Office and his term at the African Development Bank. He already appears to be a more visionary finance minister than his predecessors. It is helpful that he readily admits Nigeria is not shielded from the global financial crisis. His concerns about red flags in the banking sector warrant caution about the sector. We will be seeking opportunities to ground truth the claim that 85% of capital projects are underway, given that past execution rates have been considerably lower, around 30%. In any event, the performance of Minister Muhtar and the rest of the GON's economic management team will be critical if Nigeria is to avoid a major drop in its growth rate or even constrictions of the economy in ¶2009. The new economic team is comprised of government technocrats; the challenge will be whether the political elite will allow them to do what is economically and financially best for Nigeria.

¶10. (U) This message was coordinated with ConGen Lagos.

SANDERS